

SECRET - SECURITY INFORMATION

ED/Diver(53)4

30 November 1953

UNITED STATES REGIONAL OFFICE
MUTUAL DEFENSE ASSISTANCE CONTROLS

Summary of Diversion Case

BELGIUM/GERMANY - VILLACH - COPPER WIRE
(June 1953)

A. OUTCOME

Diversion prevented - 173 m.t. -
Villach detention

Balance due on orders:

Diversion prevented - 42 m.t. -
Zürich

Diversion certain - 360 m.t. -
Rumania

B. CASE DETAILS

1. Commodity:

Copper wire - electrolytic
(7 mm. diameter)

2. Amount:

173 m.t. - Villach

Balance outstanding of 402 m.t.
on orders totaling 575 m.t.

3. Value:

a) Unit:

\$ 1,000 and \$ 840

b) Total:

\$ 150,600 - Villach detention

344,400 - Balance due on orders

\$ 495,000 Total orders

4. Time Period of Diversion:

May - December 1953

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5. Country of Origin: Belgium and Germany
6. Country of Supposed Destination: Italy
7. Country of Actual Destination: Soviet Bloc (via Vienna)
8. Transportation:
 - a) Railroad - twelve carloads detained at Villach
 - b) Shipped: May 1953;
Redocumented at Chiasso, May 29th
Detained by British authorities at Villach, June 2nd.
 - c) Routing: From Hemiksem via Sterpenich, Belgium, Bettemburg, Luxembourg; Basel and Chiasso, Switzerland; Tarvisio, Italy; Villach, Austria to Arnoldstein/Styria, Austria
9. Principals: See Section I and II
10. Method of Diversion: See Section I and II

The copper wire was redocumented by the Italian authorities in Chiasso on May 29th and declared as "Fili Metallici" consigned to the East. All original rail documents were removed from the shipments.

C. NARRATIVE

Twelve cars of copper wire were stopped by the British authorities at Villach, Austria, on June 2nd 1953, comprising two distinct shipments from Belgium (140 m.t.) and Germany (33 m.t.). Both were partial shipments against larger orders. An additional twelve railroad cars of copper wire cleared Villach shortly before the June 2nd detention and subsequent investigation proved that diversion had occurred (See Section I, p. 8).

There is no indication from any of the source material that these two transactions in question were in any way connected. The only points in common were the commodity and the fact that both diversions were exported against Italian ICs, redocumented at Chiasso, and reconsigned to Vienna firms for ultimate diversion.

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Since the two transactions are characterized by individual factors, they will be summarized separately in Sections I and II.

| | Known as | Deriving from | Shipment and Total Orders (Amounts in metric tons) | | |
|------------|------------------|---------------|-------------------------------------------------------|-------------|--------------|
| SECTION I | LAMITREF/GIULINI | Belgium | <u>Villach</u> | <u>Bal.</u> | <u>Total</u> |
| | | | 140 | 360 | 500 |
| SECTION II | HOEHNE/FARCHIM | Germany | 33 | 42 | 75 |

D. PREVENTIVE ACTION TAKEN

Demurrage. In spite of the fact that by COCOM agreement, primary responsibility for diversions rests with the exporting country, it was the general consensus of opinion that Italy should assume responsibility for the copper wire since the shipment had entered Italy and diversion had been attempted by means of falsified Italian documents. While the Italian government denied its responsibility for shipping or demurrage charges involved in the diversion, they finally consented to warehouse the copper wire pending a final settlement of the case, provided the shipment arrived at the Italian frontier free of shipping and demurrage charges incurred in Austria. The Italian Ministry of Transport originally made stringent prerequisites for accepting the shipment (Rome/Vienna OM August 4th) but subsequently reversed its position and agreed to receive the goods. In order to avoid another Salzburg fiasco, where a shipment of ball bearings being held was released without explanation, the USA agreed to underwrite temporarily any demurrage, handling, and warehouse charges that might ensue; and accordingly, for charges incurred in Austria, MDAC/Washington reimbursed the British in the amount of Austrian Shillings 94,100 (\$3,619) for demurrage and other charges at Villach. Towards the end of August, the British delivered the shipment of copper wire free of shipping charges to the Italian frontier and the copper wire was rehoused at Ponteba near Tarvisio.

The British, USA, and Italian assumption of responsibility for charges within their respective area was assumed with the mutual understanding that as soon as a decision had been reached as to which government was responsible for the diversion, the expenditures for these charges would immediately be reimbursed in full (Dept. to Paris TOPOL unnn, Aug. 4 rptd Rome 513, Vienna 511).

The USA decision to underwrite the Villach charges precipitated the consideration of the problem in Washington as it affected transshipment licensing in general. In an EDAC/WG meeting on August 7th, it was decided that the USA should not formally declare itself willing to assume all charges resulting from detainment action, and that each case would have to be considered on its own merits. During September, from various points in Europe, MDAC/USRO assembled information on demurrage, handling and warehouse charges. Washington made a preliminary report on the general

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problem (Draft paper, September 28th "Financing Special Operations: Demurrage and Handling Costs Incident to Stoppages of Diverted Shipments") pointing up the various international aspects involved in determining the responsibility for diversions as well as for charges involved in stoppages later proved to be no evasion of trade controls. The paper also discusses the possibility of arranging for a stoppage patrol in COCOM with funds contributed by member countries, which, in turn, raises the problem of financial responsibility within the USA government. In October the Legal Counsel of FQA published a discussion of the legal aspects of the problem (ED/EC D-46, Oct. 30th) stating that in his opinion, Battle Act funds could be used for payment of such costs.

E. REMARKS

It was generally agreed that the questions of responsibility for costs incident to stoppage of diversions could be a serious threat to transit traffic control and it was expected that the problem will be brought up for consideration in the Autumn CG meetings. It is hoped that ground rules can be established in COCOM which will automatically govern future diversion cases. Inordinate delays in achieving a solution for diversion responsibility not only makes operation very expensive but can lead to a reconsideration of position on the part of various nationals, particularly in a case such as the Villach stoppages where the abolition of Four Power censorship makes any effort to curtail illegal transit trade more than ever dependent upon British-French cooperation and their confidential contacts with Swiss and Italian customs and local railroad officials.

Realizing the necessity for a coordinated plan of action for the interception and detention of shipments of strategic materials transiting Austrian and FEDREP, Col. Brown of MDAC/USRO met appropriate officials in Vienna on July 17th and submitted an outline for initiating a more fully coordinated and stepped up operation that would virtually result in a "land blockade" of the Soviet Bloc. It was felt that a vigorous effort on the part of the US and cooperating governments would undoubtedly accomplish the desired effect of "drying up" the overland transport routes within a very short time, to the point where only periodic spot checks would be necessary on a continuing basis. The plan of action was agreeably accepted by Emb/Vienna and other Embassy posts were apprised of the general plan in a memo of July 20th addressed to the US High Commissioner of Austria.

F. SOURCES

See Appendix.

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UNITED STATES REGIONAL OFFICE

MUTUAL DEFENSE ASSISTANCE CONTROLS

Summary of Diversion Case

BELGIUM/GERMANY - VILLACH - COPPER WIRE
(June 1953)

SECTION I

LAMITREE/GIULINI TRANSACTION

- A. OUTCOME
- Diversion prevented - 140 m.t.
- Balance due on order
diverted - 360 m.t.
- B. CASE DETAILS
1. Commodity: Copper wire - electrolytic -
(7 mm. diameter)
2. Amount: 140 m.t. - Villach detention
360 m.t. - Balance due on order
-
- 500 m.t. - Total Order
3. Value:
- a) Unit: \$ 840 per m.t.
- b) Total: \$ 117,600 (140 m.t.)
302,400 (360 m.t.)
-
- \$ 420,000 (500 m.t.)
- Belgian Francs: 21,000,000
4. Time Period of Diversion: May - December 1953

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5. Country of Origin: Belgium
6. Country of Supposed Destination: Italy
7. Country of Actual Destination: Soviet Bloc
8. Transportation:
 - a) Railroad cars - 10
Belgian: 451310, 459301, 459613, 450032, 456764
French: 7327478, 7324697, 730590
Italian: 1138956
German: 247920
 - b) Routing: Shipped from Hemiksem, Belgium
May 11 - 20
Detained by British at Villach,
Austria, on June 2nd, 1953
9. Principals:
 - a) Seller: LAMITREF (SOCIETE FRANCO-BELGE
LAMINOIRS ET TREFILIERIES D'ANVERS)
Hemiksem, Belgium
 - b) Forwarder: STEINER, Antwerp
 - c) Intermediary: SCHIEBERG, Mr. (F.N.U.)
OVERSEAS CHEMICAL CORP.
3 Riva Albertoli, Lugano
 - d) Buyer (fictitious): A. GIULINI
Piazza Diaz 1, Milan
 - e) Consignee: OSTRA-TRASPORTI, Chiasso
 - f) Negotiator(?): Mr. OSTINELLI
Address unknown, probably
Milan
 - g) Consignee: JOSEF TRAU
Arnoldstein, Styria, Austria
 - h) Ultimate Consignee: JUSCHWNESSTRANS, Vienna
(Soviet Forwarding Agency)

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10. Method of Diversions:

Diversions were effected through the alteration of the metric tonnage on an Italian IC from 30 to 300 issued to a fictitious Milan firm, A. GIULINI; also by means of a falsification of a Delivery Verification certificate for partial shipment against the total order (see narrative).

C. NARRATIVE

The Belgian firm, LAMITREF (SOCIETE FRANCO-BELGE LAMINOIRS ET TREFFERIES D'ANVERS) was granted two export licenses by the Belgian authorities against Italian import certificates issued to A. GIULINI of Milan for a total of 500 m.t., as follows:

| | <u>Belgian</u> <u>Export Licenses</u> | <u>Italian</u> <u>Import Certificates</u> |
|-------|-------------------------------------------------------------|--------------------------------------------------------|
| No. 1 | 333938 300 m.t. 12,600,000 Belg. Fcs. (\$ 252,000) | 421207/1 - 8/253 Rome, Jan. 10, 1953 A. Giuliani |
| No. 2 | 334513 200 m.t. 8,400,00 Belg. Fcs. (\$ 168,000) | 424179/1-8/253 |

| | | |
|--------|---------|------------------------------------------|
| TOTAL: | Amount: | 500 m.t. |
| | Value: | Belg. francs: 21,000,000 (\$ 420,000) |

The issue of the Italian ICs was arranged by a LEONE BROLATTI, Via Marie Pagano 23, Milan, to the fictitious Milan firm, A. GIULINI. In addition, the metric tonnage of IC 421207 was altered to read "300" instead of "30", and it was later verified that this fraud had been committed in Italy. The shipment was routed through Switzerland via Chiasso where the copper wire was redocumented and sent on to Tarvisio and Villach. A subsequent inquiry by a Milanese firm indicated that a certain Mr. OSTINELLI was negotiating with the OSTRA firm when the shipment was in Chiasso.

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Of the total export of 300 m.t. authorized by IC 421207/1 - 8/253, a 120 m.t. shipment was diverted through Chiasso in January in spite of the fact that the Belgian Government had taken the precaution of holding up further shipments until the receipt of four delivery verifications for the first shipment. These DV's were subsequently found to be forged (No. 1017, May 2nd). The second shipment arrested at Villach in June, was for 140 m.t.

Balance on order (360 m.t.) Of the non-Villach balance of 360 m.t. outstanding on the 500 m.t. LAMITREF/GIULINI total order, 120 m.t. had already been diverted in January (see above) and the remaining 240 m.t. are accounted for by the 12 railroad cars, containing 20 m.t. each, consigned from LAMITREF, which were permitted by the British to proceed to Vienna in May, immediately before the June 2nd detention. A subsequent inquiry revealed that diversion had occurred.

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UNITED STATES REGIONAL OFFICE
MUTUAL DEFENSE ASSISTANCE CONTROLSSummary of Diversion CaseGERMANY - VILLACH - COPPER WIRE
(June 1953)SECTION IIHOEHNE/FARCHIM TRANSACTION

A. OUTCOME

Diversion prevented - 33.2 m.t.
Villach detentionBalance due on orderDiversion prevented - 41.8
CHEMIE/Zürich

B. CASE DETAILS

1. Commodity:

Copper wire - electrolytic
(7 mm. diameter)

2. Amount:

33.2 m.t. - Villach detention
41.8 m.t. - Balance due on order
75.0 m.t. - Total Order

3. Value:

a) Unit:

\$ 1,000 per m.t.

b) Total:

\$ 33,000 (33.2 m.t.)
42,000 (41.8 m.t.)
\$ 75,000 (75 m.t.)

DM: 299,730

4. Time Period of Diversion:

May - December 1953

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5. Country of Origin: Germany
6. Country of Supposed Destination: Italy
7. Country of Actual Destination: Soviet Bloc/Rumania
8. Transportation:
 - a) Railroad cars
 - French: 7271046 - Containing 16.7 m.t.
 - German: 144382 - Containing 16.5 m.t.
 - b) Routing: Shipped from Osnabrueck, May 21st, 1953
Detained by British at Villach, Austria, on June 2nd, 1953
9. Principals:
 - a) Seller: OSNAERUECKER KUPFER UND DRAHTWERK,
Osnabrueck
 - b) Consignor: Karl Albert HOEHNE
Berlin Charlettenburg 4
Dahlmannstrasse 16
 - c) Buyer: CHEMIE UND FETTHANDEL A/G
Tramstrasse 142, Zurich
 - d) Consignee: FARCHIM PRODOTTI FARMACEUTICI E
CHIMICI
Via Soncino 1, Milan
aka
FARCHIM DI DINI E GROSSI
Viale Bianca Maria 45, Milan
Partners: Dr. Carlo Dini
Dr. Adelchi Grossi
 - e) Forwarder: NATURAL LE COULTRE S.A.
Chiasse

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Additional information received from Vienna (Vienna D-302, August 24th) indicated that the copper wire ordered by CHEMIE from Hoehne (Order No. 121) was destined for:

| | |
|------------|-----------------------------------------------------------------------|
| Consignee: | INTERNATIONALE TRANSPORTE KARL KUBICEK Franz Josefskai 7-9, Vienna |
| Forwarder: | ROMTRANS, Bucharest |
| Buyer: | ENERGOIMPORT, Bucharest |

10. Method of Diversion: Diversion was made possible by extreme laxness on the part of the Berlin authorities who issued Hoehne a license for the exportation of 75 m.t. to a Swiss firm against an Italian IC for 25 m.t. on the basis of a promise to correct the discrepancy (See Narrative).

C. NARRATIVE

A transaction (Order No. 121) for the sale and exportation of 75 m.t. of copper wire deriving from Osnabrueck, Germany, was entered into by Karl HOEHNE of Berlin with CHEMIE UND FETTHANDEL of Zurich for resale to FARCHIM of Milan.

The Berlin licensing authorities, with extreme laxness, issued an export license to Hoehne for 75 m.t. of copper wire against an Italian IC for 25 m.t., which proved to be only a photostat, on the assurance that Hoehne would obtain a new or amended certificate for 75 m.t.; as follows:

Italian IC issued to FARCHIM, March 31st, 1953:

432493/1 - 8/1069
25 m.tons
DM 102,325 (\$ 24,363)

German Export License issued to HOEHNE, April 15th, 1953:

B-16606
75 m.tons
DM 299,730 (\$ 75,000)

In addition, the shipment was licensed to a Swiss intermediary in spite of the fact that neither the name nor the address of the supposed Italian end-user would appear on the export license and therefore would not appear on any further documents concerning the shipment. The Italian

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IC was eventually returned by Hoehne to FARCHIM through CHEMIE, with the understanding the Milan firm would obtain and forward to Hoehne a new certificate for 75 m.t. This was not done; nor were Swiss IC's issued for the shipment. FARCHIM returned the Italian IC to the Ministry of Foreign Trade marked "not utilized", which, in the normal course of events, would have ensured that the diversion would not be detected. However, a notation had been made by the German licensing authorities on the face of the certificate and the Italian authorities state that it was returned to Bonn to determine the true circumstances of the matter.

Of the 75 m.t. total shipment, 41.8 m.t. were shipped in May/June to CHEMIE and the balance of 33.2 m.t., reshipped by the Swiss firm via Chiasso where the copper wire was redocumented and sent on to Tarvisio and Villach, was stopped in June by the British. In payment for the total transaction, Hoehne received DM 299,730 (\$ 75,000) through the Swiss clearing via BANK FUER ANLAGEWERTE, Zurich, by order of CHEMIE.

During an inquiry of the matter in July, Hoehne, who the Berlin authorities insist acted in good faith, attempted to clarify the matter.

He was told by CHEMIE that the 33.2 m.t. had been sold to Yugoslavia, although the Swiss firm refused to divulge any further details.

At the same time, the FARCHIM representative advised Hoehne that their order for the purchase with CHEMIE had been cancelled "some time ago."

Balance on order (41.8 m.t.) In August, CHEMIE confirmed that the 41.8 m.t. outstanding had remained unsold and was still in their possession.

Further investigation did not indicate any diversion plans on their part. They offered to resell to Hoehne at purchase price plus freight, storage and interest. As an alternative, Hoehne obtained a commitment from CHEMIE not to dispose of this balance elsewhere without notifying the Berlin authorities.

D. PREVENTIVE ACTION TAKEN

Upon investigation of the case by the US and British governments, the Berlin licensing authorities expressed extreme embarrassment over the attempted diversions and made a conscientious effort to obtain the full story and to take preventive action against similar occurrences in the future. They informed Hoehne they were not prepared to consider further export applications pending an inquiry of the case and placed CHEMIE UND FETTHANDEL on their watch list. In addition, they recommended similar action to ZAK, the FEDREP licensing authorities. An August 27 despatch from Bonn (D-726) also gave assurance that the 41.8 m.t. remaining in the custody of CHEMIE would have to be relicensed; that it would be carefully supervised and only licensed for Western buyers.

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E. REMARKS

Unexplained Factors

1. CHEMIE stated in August to Heehne that the 33.2 m.t. copper had been sold to Yugoslavia; yet Vienna D-302, August 24th, which gave a complete resume of CHEMIE Order No. 121, indicated that this shipment, along with prior and subsequent shipments, was destined for ENERGOIMPORT of Bucharest.
2. The Berlin authorities (Bonn D-726, August 27th) give assurance that the balance of 41.8 m.t. held by CHEMIE will only be licensed for export to a Western buyer, but there is no explanation how this is to be controlled when Heehne has already been paid by CHEMIE, a Swiss firm.

MDAG/USRO.
E.Burton:sn

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F. SOURCES

Summary Report

C. Narrative:

- 1) Vienna/Paris 516 June 2, Dept. unn.
- 2) Vienna/Paris 528 June 10, Dept. unn.
- 3) Vienna/Paris 537 June 16, Dept. unn.
- 4) Brussels/Paris Unn. June 22, Dept. unn.
- 5) Vienna/Paris 547 June 23, Wash 3472
- 6) Vienna/Paris 554 June 25, Dept. 3500

D. Preventive Action Taken (Demurrage):

- 1) Vienna/Paris unn July 2, Dept. 27
- 2) Rome/Paris 4 July 7, Dept. 82
- 3) Brussels D-53 July 9
- 4) Rome/Brussels, OM, July 21
- 5) Rome/Paris 41 July 27, Dept. 340
- 6) Vienna/Paris 26 July 28
- 7) Rome/Vienna, OM, July 28
- 8) Rome/Vienna, OM, August 4
- 9) Vienna/Paris 47 August 13, Dept. 394
- 10) Dept/Paris Topol Unn August 14
- 11) Rome/Paris 83 August 19
- 12) Wash/Paris Topol unn August 20
- 13) Vienna/Paris unn August 21, Dept. unn.
- 14) Vienna/Toecca 94 November 20, Dept. unn.
- 15) EDAC/WG - 2/M - 5/6, August 7
- 16) Draft Paper, September 28, 1953 - Financing Special Operations: Demurrage and Handling Costs Incident to Stoppage of Diverted Shipments
- 17) ED/EC D-46, October 30

E. Remarks:

- 1) Memo, July 20 from MDAC/USRO, Col. Brown to HIGOM, Austria

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Section I:

- 1) Brussels/Paris 1 July 1st, Dept. umn.
- 2) Rome Desp - 323, August 4
- 3) Milan Desp - 77, September 2
- 4) Milan Desp - 95, September 18
- 5) Rome Desp - 1040, November 10

Section II:

- 1) Bonn/Paris Torep 42 July 16, Dept. 250
- 2) Berlin/Paris umn July 29, Dept. umn.
- 3) Vienna Desp - 302, August 24
- 4) Bonn Desp - 726, August 27
- 5) Rome Desp - 551, August 28
- 6) Berlin/Paris umn August 28, Dept. umn.
- 7) Milan Desp - 88, September 14
- 8) Bonn/Rome, CM, September 17
- 9) Rome Desp - 714, September 24

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